INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
Office of Economics

Washington DC
20436

May 1994

In This Issue:

UNITED STATES
INTERNATIONAL
TRADE COMMISSION

OFFICE OF ECONOMICS

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Summary of U.S. Economic Conditions

Declining exports and faltering consumer, business, and government spending restrained the GDP growth rate in the first quarter of 1994 to 2.6 percent at an annual rate, less than half the growth rate of the previous quarter. Nevertheless, rising investment spending projected for 1994 should support economic growth in the remainder of the year.

Real GDP grew by 2.6 percent at an annual rate in the first quarter of 1994 following a growth rate of 7.0 percent in the previous quarter. Some of the losses in output were due to the severe winter weather conditions and the earthquake in California. Severe weather restrained consumer and business spending, particularly on consumer durables and housing. Real consumer spending declined by $4.4 billion to $32.9 billion from the fourth quarter, and real nonresidential fixed investment spending declined to $8.4 billion from $30.9 billion in the fourth. Federal Government spending decreased by $11 billion in the first quarter compared with a decrease of $4.7 billion in the fourth. Real exports declined by $15 billion in contrast to an increase of $28.1 in the fourth quarter.

Increased business spending projected for 1994 is expected to prop growth in the remainder of the year. U.S. business plans an 8.0-percent increase in nominal spending for new plant and equipment from 1993 to 1994, according to estimates released by the U.S. Commerce Department. These estimates are based on Commerce surveys of a large panel of corporate and noncorporate companies. The increase for 1994 reflects an upward revision from the planned increase of 5.4 percent reported in December 1993. The new level of planned spending for 1994 is $633 billion. Spending was $586 billion in 1993, 7.1 percent higher than in 1992. Manufacturing industries plan a 7.5-percent increase in spending for 1994, following an increase of 3.0 percent in 1993. Nonmanufacturing industries plan an 8.3-percent increase in nominal spending for 1994, following an increase of 9.1 percent in 1993.

Real business spending (1987 dollars) is expected to increase 9.8 percent in 1994 following an increase of 8.6 percent in 1993. Real spending is expected to increase 3.2 percent in the first quarter of 1994, 1.0 percent in the second quarter, and 4.0 percent in the second half. These are compared with the real spending increases of 2.0 percent in the fourth quarter of 1993, 3.3 percent in the third quarter, 2.5 percent in the second, and 1.7 percent in the first quarter.

The planned increase in investment spending, combined with subdued wage increases and declining labor costs, has led to increased hiring in business and in services. Statistics by the U.S. Department of Labor show that the nonfarm business sector added 456,000 jobs in the first quarter of 1994, the biggest gains since October 1987. Construction jobs rose by 74,000 and manufacturing employment increased 12,000, the sixth consecutive gain. In addition, services added 339,000 workers in retail, health care, and temporary health services.

Despite the rising demand for labor, wages increased only slightly and the cost of labor generally declined because of larger productivity gains in 1993. Productivity in manufactures soared by 7.2 percent in the fourth quarter of 1993 compared to the third and by 5.2 percent from a year ago; in the broader business sector productivity increased by 6.9 percent in the fourth quarter and by 2.1 percent from a year ago. Hourly nonfarm pay edged up slightly to $11.04 in March, and annual wage growth remained at just 2.4 percent.

Available March statistics on employment and the labor market show that the economy ended the first quarter of 1994 on a strong note. Job gains in the first quarter bolstered personal income in February and March. Personal income increased $98.9 billion (1.8 percent) in February and $33.1 billion (0.6 percent) in March.

Reflecting the dampening effects of rising interest rates initiated in early February by the Federal Reserve on interest sensitive sectors, and also the effect of the severe weather on contruction, consumer spending, and other activities, the composite index of leading indicators remained flat in February 1994 following an increase of 0.3 percent in January and 0.6 percent in

December, according to the Department of Commerce. The index, however, rebounded in March rising by 0.7 percent driven largely by a record high increase in the average work week to 42.3 hours work/week. Other indicators that contributed to the March increase included changes in sensitive material prices, building permits, average weekly initial claims for state unemployment insurance, changes in manufacturers' unfilled orders of durable goods in 1987 dollars, contracts and orders for plant and equipment in 1987 dollars, the index of consumer expectations, and money supply in 1987 dollars.

U.S. Economic Performance Relative to Other Group of Seven Members

Economic Growth

Real GDP—the output of goods and services produced in the United States measured in 1987 prices—grew at a 2.6-percent annual rate in the first quarter of 1994 following a 7.0-percent growth in the fourth quarter of 1993 and a revised annual rate of 2.9 percent in the third quarter.

The annualized rate of real economic growth in the fourth quarter was 2.8 percent in the United Kingdom, 3.8 percent in Canada, -1.9 percent in Germany, -2.2 percent in Japan, 0.5 percent in France, and -1.9 percent in Italy.

Industrial Production

Seasonally adjusted U.S. nominal industrial production rose by 0.5 percent in March 1994 following a 0.6-percent rise in February 1994. Several industries increased production after slowing down because of severe weather conditions in January and February. However, a drop in the production of motor vehicles and electricity restrained the overall increase in total production. Manufactures output increased by 0.6 percent in March. Output of consumer goods fell by 0.2 percent, affected by the decline in automotive products. The output of business equipment rose by 0.7 percent and the production of construction supplies advanced 1.1 percent after falling in January and February. For the first quarter of 1994 as a whole, total output advanced at a seasonally adjusted annual rate of 6.5 percent. For the year ending March 1994, industrial production increased 5.1 percent above its level for the year ending March 1993.

Reflecting the faster growth in total output, total capacity utilization in manufacturing, mining, and utilities grew by 0.2 percent to 83.6 percent in March 1994 following a gain of 0.3 percent in February. Capacity utilization in manufactures declined by 0.3 percent in March. From March 1993 to March 1994, total capacity utilization increased 2.1 percent, and capacity utilization in manufacturing increased 2.4 percent.

Other Group of Seven (G-7) member countries reported the following annual growth rates of industrial production. For the year ending February 1994, Japan reported a decrease of 4.2 percent, Germany reported an increase of 1.1 percent, and the United Kingdom reported an increase of 3.5 percent. For the year ending January 1994, France reported a decrease of 0.2 percent, Italy reported an increase of 1.5 percent, and Canada reported an increase of 4.9 percent.

Prices

The seasonally adjusted Consumer Price Index (CPI) increased 0.3 percent in March 1994 following the same increase in February. The CPI advanced 2.5 percent during the 12 months ending March 1994.

During the 1-year period ending March 1994, prices increased 3.2 percent in Germany, 4.2 percent in Italy, 0.2 percent in Canada, 1.5 percent in France, 2.4 percent in the United Kingdom, and 1.1 percent in Japan.

Employment

In March 1994, the U.S. unemployment rate was 6.5 percent, the same as the February level. In other G-7 countries, unemployment in March 1994 was 8.3 percent in Germany, 10.6 percent in Canada, 11.2 percent in Italy, 9.8 percent in the United Kingdom, 12.2 percent in France, and 2.9 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasters expect real growth in the United States to average about 3.3 percent in the first half of 1994 and 2.8 percent in the second half of the year. Factors that are likely to restrain the recovery in 1994 include the impact of rising interest rates on new investment, output, and incomes, and of the general slowdown in foreign economic growth, particularly in Japan and the European Union. Although consumer spending has increased in recent months, forecasters expect consumer spending to increase at a slower rate unless personal incomes keep rising strongly and employment

prospects improve sufficiently to increase consumers' confidence to such a degree so that more spending will be encouraged. Also, the tax increase and the cuts in government spending initiated by the Federal Government to balance the Federal budget, combined with the Federal Reserve hike of interest rates, could have further dampening effects on investment and consumer spending and confidence and thus further moderate the recovery in 1994. Table 1 shows macroeconomic projections for the U.S. economy for January to December 1994, by four major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators, except unemployment, are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 6.6 percent in the first quarter, followed by a decline to 6.3 percent in the third and fourth quarters of 1994. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 2.2 percent in the first quarter of 1994 and 2.1 percent in the second and third quarters. Productivity growth, combined with a slow rise in labor costs, wages, and compensations, is expected to hold down inflation around the 2.1-percent rate throughout 1994.

Table 1
Projected changes of selected U.S. economic indicators, by quarters, Jan-Dec. 1994
(Percent)

Period	UCLA Business Fore-casting Project	Merrill Lynch Capital Markets	Data Resources Inc.	Wharton E.F.A. Inc.	Mean of 4 fore-casts
	GDP current dollars				
1994:					
Jan.-Mar.	4.5	6.4	6.9	5.0	5.7
Apr.-June	5.2	5.5	5.7	5.0	5.3
July-Sept.	5.1	5.4	4.8	5.1	5.1
Oct.-Dec	4.9	5.1	4.5	5.5	5.0
	GDP constant (1987) dollars				
1994:					
Jan.-Mar.	2.5	4.0	4.3	2.7	3.4
Apr.-June	3.2	3.3	2.9	3.3	3.2
July-Sept.	3.6	3.0	2.1	3.0	2.9
Oct.-Dec.	3.4	2.7	1.7	3.0	2.7
	GDP deflator index				
1994:					
Jan.-Mar.	1.9	2.3	2.6	2.2	2.2
Apr.-June	1.9	2.2	2.7	1.7	2.1
July-Sept	1.5	2.4	2.7	2.0	2.1
Oct.-Dec.	1.5	2.4	2.8	2.4	2.3
	Unemployment, average rate				
1994:					
Jan.-Mar.	6.5	6.6	6.6	6.6	6.6
Apr.-June	6.4	6.5	6.3	6.5	6.4
July-Sept.	6.3	6.5	6.1	6.4	6.3
Oct.-Dec	6.3	6.4	6.0	6.5	6.3

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: April 1994.

Source: Compiled from data provided by the Conference Board. Used with permission.

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of goods and services of $52.9 billion and imports of $62.6 billion in February 1994 resulted in a merchandise trade deficit of $9.7 billion, $3.1 billion more than the January deficit of $6.6 billion. The February 1994 deficit was $6.1 billion more than the deficit registered in February 1993 ($3.6 billion) and $3.1 billion higher than the average monthly deficit registered during the previous 12 months ($6.6 billion).

Seasonally adjusted U.S. trade in goods and services in billions of dollars, as reported by the U.S. Department of Commerce, is shown in table 2. Nominal export changes and trade balances for specific major commodity sectors are shown in table 3. U.S. trade in services by major category is shown in table 4. U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 5.

Table 2
U.S. trade in goods and services, seasonally adjusted, Jan.-Feb. 1994
(Billion dollars)

Item	Exports		Imports		Trade balance	
	Feb. 94	Jan. 94	Feb. 94	Jan. 94	Feb. 94	Jan. 94
Part 1						
Trade in goods BOP basis:						
Current dollars—						
Including oil	37.2	38.5	51.0	49.9	-13.9	-11.4
Excluding oil	37.4	38.7	46.5	46.2	-9.2	-7.5
3-month-moving average	39.1	39.8	50.4	50.3	-11.3	-10.5
Trade in services:						
Current dollars	15.7	15.8	11.6	11.1	4.2	4.7
3-month-moving average	15.8	15.6	11.3	11.2	4.5	4.4
Trade in goods and services BOP basis:						
Current dollars	52.9	54.3	62.6	61.0	-9.7	-6.6
3-month-moving average	54.8	55.4	61.6	61.5	-6.8	-6.1
Part 2						
Trade in goods: Census basis:						
1987 dollars	36.6	37.9	49.8	49.2	-13.2	-11.3
Advanced-technology products (not seasonally adjusted)	8.9	9.6	6.7	6.7	2.2	2.9

Note.—Data on goods trade are presented on a Balance of Payments (BOP) basis, which reflects adjustments for timing, coverage, and valuation of data compiled by the U.S. Census Bureau. The major adjustments exclude military trade, but include nonmonetary gold transactions, and estimates of inland freight in Canada and Mexico, not included in the U.S. Census Bureau data.

Source: *U.S. Department of Commerce News (FT 900)*, Apr. 1994.

Table 3
Nominal U.S. exports and trade balances, not seasonally adjusted, of specified manufacturing sectors, and agriculture, Jan. 1993-Feb. 1994

Sector	1994 Exports Jan.-Feb. 1994	1994 Exports Feb. 1994	Change Jan.-Feb. 1994 over Feb. 1993	Change Feb. 1994 over Jan. 1994	Share of total, Jan.-Feb. 1994	Trade balances, Jan.-Feb. 1994
	Billion dollars		—— Percent ——		Billion dollars	
ADP equipment & office machinery	4.4	2.2	5.3	0.9	6.0	-2.69
Airplane	3.6	1.6	9.2	-22.0	4.8	3.00
Airplane parts	1.6	.7	1.3	-10.8	2.1	1.16
Electrical machinery	6.5	3.2	17.8	-3.3	8.7	-1.52
General industrial machinery	3.0	1.5	1.3	2.7	4.0	-0.10
Iron & steel mill products	0.5	.3	-5.5	-7.4	.7	-1.33
Inorganic chemicals	0.6	.3	-23.0	-3.4	.8	-0.04
Organic chemicals	1.8	0.9	2.8	-9.4	2.5	0.06
Power-generating machinery	3.0	1.5	0.3	-4.6	4.0	-0.01
Scientific instruments	2.5	1.2	6.0	-0.8	3.3	1.08
Specialized industrial machinery	2.9	1.4	7.9	-5.4	3.8	0.40
Telecommunications	2.1	1.0	12.0	-8.1	2.9	-2.21
Textile yarns, fabrics and articles	0.9	.5	0.0	0.0	1.2	-0.42
Vehicle parts	2.9	1.5	-0.7	7.8	3.9	-0.18
Other manufactured goods[1]	4.2	2.1	0.0	-6.0	5.7	-1.58
Manufactured exports not included above	18.1	9.2	5.6	3.4	24.4	-15.36
Total manufactures	58.6	29.0	5.3	-2.3	78.8	-19.74
Agriculture	7.1	3.4	-3.5	-6.8	9.6	3.05
Other exports	8.7	4.5	-2.6	7.2	11.7	-2.22
Total	74.4	36.9	3.4	-1.6	100.0	-18.91

[1] This is an official U.S. Department of Commerce commodity grouping.

Note.—Because of rounding, figures may not add to the totals shown. Data are presented on a U.S. Census Bureau basis.

Source: *U.S. Department of Commerce News (FT 900)*, Apr. 1994.

Table 4
U.S. exports and trade balances of services by sectors, Jan. 1993-Feb. 1994, seasonally adjusted

	Exports		Change		Trade balances	
	Jan.-Dec. 93	Jan.-Feb. 94	Jan.-Dec. 93 over Jan.-Dec 92	Jan.-Feb. 94 over Jan.-Feb. 93	Jan.-Dec. 93	Jan.-Feb. 94
	Billion dollars		*Percent*		*Billion dollars*	
Travel	56.5	9.7	4.8	5.6	14.17	2.49
Passenger Fares	17.8	3.1	2.9	3.4	6.59	1.11
Other Transportation	23.5	4.0	3.1	4.2	-1.00	0.01
Royalties and licence fees	20.4	3.4	0.8	5.8	15.66	2.34
Other private services[1]	56.4	9.5	5.3	1.0	22.84	3.47
Transfers under U.S. military sales contracts	11.3	1.7	2.3	-17.3	-1.03	-0.26
U.S. Govt. miscellaneous services	0.8	0.1	-4.6	30.0	-1.56	-0.26
Total	186.8	31.5	3.9	2.4	55.68	8.88

[1] Other private services consist of transactions with affiliated and unaffiliated foreigners. These transactions include education, financial services, insurance, telecommunications, such technical services as business, advertising, computer and data processing services, such other information services as research, engineering, consulting, and the rest.

Note. —Services trade data are on a Balance of Payments (BOP) basis. Details may not equal totals due to seasonal adjustment and rounding.

Source: *U.S. Department of Commerce News (FT900)*, Apr. 1994

Table 5
U.S. merchandise trade deficits and surpluses, not seasonally adjusted, with specified areas, Jan. 1993-Feb. 1994

(Billion dollars)

Area or country	Feb. 1994	Jan. 1994	Feb. 1993	Jan.-Feb. 1994	Jan.-Feb. 1993
Canada	-1.02	-1.10	-.91	-2.12	-1.95
Mexico	.05	.32	.32	.37	.60
Western Europe	-.53	.17	1.41	-.36	3.15
European Union (EU)	-.09	.31	1.42	.22	3.16
Germany	-.81	-.59	-.59	-1.41	-.84
European Free-Trade Association (EFTA)[1]	-.50	-.31	-.16	-.81	-.32
Japan	-4.63	-4.61	-4.13	-9.24	-8.03
China	-1.66	-2.19	-1.17	-3.85	-2.75
NICs[2]	-.91	-.74	-.41	-1.65	-1.20
FSU[3]/Eastern Europe	-.01	.04	.18	.04	.36
FSU	.01	.08	.10	.09	.25
Russia	-.05	.05	.06	0.01	.17
OPEC	-.71	-.28	-.96	-.99	-2.07
Trade balance	-9.96	-8.95	-5.91	-18.91	-12.02

[1] EFTA includes Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.

[2] NICs include Hong Kong, the Republic of Korea, Singapore, and Taiwan.

[3] Former Soviet Union.

Note.—Because of rounding, country/area figures may not add to the totals shown. Also, exports of certain grains, oilseeds and satellites were excluded from country/area exports but were included in total export table. Also some countries are included in more than one area. Data are presented on a U.S. Census Bureau basis.

Source: *U.S. Department of Commerce News (FT 900)*, Apr. 1994.

INTERNATIONAL TRADE DEVELOPMENTS

Export Controls: The Age of Uncertainty

Since the end of the Cold War, the industrialized democracies have steadily reduced their controls over the sale of goods and of technologies with potential military significance to the countries of the former Soviet bloc.[1] The process of liberalization reached a critical point with the dissolution of the 17-nation Coordinating Committee for Multilateral Export Controls (COCOM)[2] on April 1, 1994. The dissolution marks the beginning of a new era of increased national discretion over export controls. At the same time there is need for closer cooperation between the Western nations and the former adversaries to prevent the proliferation of sophisticated weapons of mass destruction in the Third World.

Established in 1949, COCOM coordinated the licensing processes and policies of its member nations. In addition to ensuring that military exports from the member countries would not end up in the Soviet bloc, COCOM also restricted the transfer of technology to the communist world through the control of goods and technologies that could be used in a dual, civilian or military, capacity.[3]

[1] The Soviet Union, the Baltic States (Estonia, Latvia, and Lithuania), and Central and Eastern Europe. During the Cold War, Central and Eastern Europe comprised Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania. Since German reunification in 1991, the country group does not include East Germany. Since the split of Czechoslovakia in 1993, it includes the Czech Republic and Slovakia separately.

[2] At its dissolution, the COCOM included the following countries: the United States, Australia, Belgium, Canada, Denmark, France, Germany, Greece, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Turkey, and the United Kingdom. Membership in COCOM included all the countries of the North Atlantic Treaty Organization (NATO), except Iceland, plus Australia and Japan.

[3] Modern passenger planes, sophisticated computers, and telephone networks are examples of dual-use goods. The technical processes involved in the manufacturing and the effective functioning of these items are examples of dual-use technologies.

COCOM in the Post-Cold War Era

Beginning in 1989, under U.S. leadership, the COCOM countries periodically removed dual-use commodities and technologies from the control lists and liberalized controls over the remaining items. Liberalization meant the "presumption of approval" rather than "presumption of denial" in evaluating license applications for certain products. COCOM made the removal of a country from the list of proscribed destinations contingent upon the establishment of an export control regime that would prevent the re-export of licenced items to destinations still proscribed. COCOM members undertook to provide technical assistance to the former Soviet bloc countries to establish such export control systems.

The former Soviet Bloc countries showed a great interest in being removed from the COCOM list. Removal meant that they would receive the same export control treatment as any other friendly non-COCOM nation.[4] Such a country could purchase considerably more goods and technologies without licensing than a country on the COCOM list. In addition, many of the items that still required licensing could be purchased under the various types of distribution licenses authorizing multiple sales, rather than being subject to a specific, so-called individual validated license for each transaction.

East Germany and Hungary were the only countries that were removed from COCOM's list before the organization's dissolution. However, shortly before the dissolution, the partner states agreed that the Czech Republic, Poland, and Slovakia had made substantial progress in adopting safeguard measures to protect against the diversion of controlled commodities. COCOM partners left to the individual partner states the responsibility to remove these countries from their respective lists of proscribed

[4] In U.S. export control regulations, these nations are designated as country Group V. For details, see U.S. Department of Commerce, Bureau of Export Administration, *Export Administration Annual Report, FY 1993*.

destinations. The Baltic states, Bulgaria, Romania, and the former Soviet republics of Russia, Belarus, Kazakhstan, and the Ukraine were in the process of establishing Western-style export control systems when COCOM was dissolved. At present, it is up to the individual former COCOM partner to decide when these countries qualify for removal from its respective list of proscribed destinations.

The dissolution of COCOM was brought about by the reduction of its workload and by the wish of many of its members for more independence in matters of export control. The "supersensitive" dual-use commodities and technologies that remained on the COCOM lists at the time of the organization's dissolution were absorbed into the national control lists. The former members pledged to continue consultations concerning further steps to liberalize export controls. They also pledged to strengthen international organizations designed to control trade in nuclear materials and weapons delivery systems, the Nuclear Suppliers Group and the Missile Technology Control Regime, respectively, and to prevent the spread of biological and chemical weapons (the Australia Group).[5] The members also began negotiations to create a new, export control group. The envisaged organization would have functions similar to those of COCOM, but it would control a smaller number of products and it would have a wider based membership. However, the negotiations have met with serious difficulties.

Difficulties Surrounding the Creation of a Successor Organization

The partner states apparently disagree about the list of commodities the new organization should control. They also disagree about the voting system. The United States reportedly wants the new organization to have the same single-country veto rule that existed under COCOM, but some partner states object.

A further source of disagreement revolves around country coverage. Currently, the United States is targeting four countries as international outlaws: Iraq, Libya, North Korea, and Iran. Not all former COCOM members target them equally. For example, former COCOM partners find it difficult to agree on the high-technology items that may be purchased by Iran. If the membership were extended to include Russia and China, the disagreement could be even greater.

All the members seem to be undecided about when and under what conditions the successor organization should include additional members, most importantly, Russia and China. (China's signing of the Missile Technology Control Regime would be only one of the conditions.) The industrialized democracies are apparently concerned about China's human rights record and the unexpected success of extreme nationalists in Russia's December 1993 election.

Adding to the difficulties, disagreements over many of these issues exist within each industrialized democracy. In general, the military and traditional export control bureaucracies in each country want more control, whereas industrial lobbies are pushing for more freedom to export without government approval.

News reports indicate that, even if all of the above obstacles were quickly ironed out, the new organization would lack the cohesion and motivation that characterized COCOM. Including former and current communist countries would mean a much greater variety of motivations and political considerations among the members vis-a-vis the rest of the world than the one that existed among the COCOM members. Yet, only a successor organization could eliminate the danger of competitive deregulation of the remaining controls to gain market shares.

Liberalization Continues

Before the dissolution of COCOM, its members agreed on the outline of the next set of decontrol measures. In accordance with this agreement, the United States introduced major measures of liberalization on April 4, 1994. Controls were removed from virtually all telecommunications equipment, including fiber-optic and switching equipment, to practically all destinations outside embargoed North Korea, Libya, Cuba, and Iraq. Computers, performing up to 1,000 million theoretical operations per second (MTOPS), considered "sophisticated" by industry analysts, were also removed from control. (The previous limit was 260 MTOPS.) In addition, the Department of Commerce, which licenses dual-use goods in the United States, announced several measures simplifying and shortening the licensing process.

[5] The Missile Technology Control Regime includes Argentina, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The Nuclear Suppliers Group includes the following countries: Australia, Austria, Belgium, Bulgaria, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The Australia Group, except Sweden, plus Turkey, is identical with the Missile Technology Control Regime.

The United States continues to license the export of supercomputers except to Canada and Japan. For both computers and telecommunications equipment, decontrol applies only to items bought by civilian end-users and does not cover the technology involved in the manufacturing of these products. Encryption gear, digitally controlled radio receivers, and certain other radio equipment remained on the list of commodities requiring government authorization to be exported.

As mentioned earlier, COCOM members agreed on the details of the liberalization measures that would follow the organization's dissolution. Nevertheless, national discretion in the application of these measures could bestow the advantage of easier and faster licensing for a given commodity in one country than in another. The time required to process applications for certain products to different markets could become significantly different in the various former COCOM members.

Mixed Reactions of U.S. Industries

Private U.S. firms welcomed the measures introduced on April 4, 1994, but they are also concerned that the former COCOM partner states will enforce more liberal control rules than the U.S. Government, thereby handicapping their ability to compete. This concern is based on the observation that the United States controls a wider range of commodities for more reasons than any other former COCOM ally.[6]

U.S. industrial lobbies are keeping a close eye on the legislative process now under way to renew the Export Administration Act (EAA), which regulates dual-use export controls and is set to expire on June 30, 1994. Reportedly, industry groups are seeking the incorporation of clauses that would guarantee regular reviews of controlled items and an automatic trigger that would continuously raise the technological threshold for control. They reportedly seek also the simplification of suggested administrative export rules. If the debate over the renewal of the law is not settled until June 30, 1994, the export control regime currently in place would probably continue under the International Emergency Economic Powers Act.

[6] USITC, *Global Competitiveness of U.S. Advanced-Technology Industries: Computers*, investigation No. 332-339, Dec. 1993, pp. 3-9 to 3-11.

The Stakes Involved

During 1993, exports of U.S. dual-use goods subject to licensing amounted to $16.5 billion, representing 4.2 percent of total U.S. manufactured exports. As a result of the decontrols announced in early April, many export items that required licensing during 1993 may now be exported without licensing. Consequently, both the absolute value and the percentage share of licensed dual-use exports are likely to decline during 1994. Nevertheless, the products that remain under licensing requirements represent the cutting edge of U.S. scientific and technological achievements.

The success of U.S. exporters of these products in world markets is important for the national economy. Many major U.S. firms, such as McDonnell Douglas Corp., Martin Marietta Corp., and General Dynamics Corp., produce civilian products that closely resemble their highly advanced military goods; such goods could remain subject to licensing. As military sales decline in both the United States and abroad, it is vitally important for U.S. firms producing both military and similar civilian goods to recoup sales in products converted from military into civilian use. U.S. Government analysts concur that U.S. firms may be able to substitute exports of civilian goods for military exports during the next 10 years. Since many of these products may still be considered sensitive dual-use goods, they are likely to remain subject to licensing. Specialists in export controls expect the producers of these products to lobby for further liberalization of the licensing process. They candidly admit that they do not know at what point further liberalization would endanger national and global security.

Korea Simplifies Foreign Investment Approval Process

In early March, Korea announced several measures to streamline its foreign investment approval process. The changes in investment rules are part of a wider effort by the Government of Korea to open the Korean economy to international competition and to bring Korea's investment regime closer to the standards of the Organization for Economic Cooperation and Development (OECD), which Korea hopes to join within the next few years.

The revised procedure for approving foreign investment by Korean authorities is designed to be shorter and simpler than the previous process. The review period required by the Korean Government to accept a foreign investment application is reduced from 30 days to 15 days. The Government will undertake an

initial review of investment documentation at the time of its submission. Smaller investments, those below 300 million won ($375,000) in the service sector and 1 billion won ($1.25 million) in manufacturing, are to be processed in 5 days. The Government of Korea also simplified the process for expanding foreign invested businesses. In addition, rules pertaining to stock sales by foreigners were somewhat relaxed. Rules that required foreign holders of stocks to notify the Government of Korea of pending stock sales were eased, and the requirement that the Government verify the sale price of the foreign-owned stocks was eliminated.

The recent changes in foreign direct investment (FDI) regulations follow earlier efforts to reduce sector-specific restrictions on foreign investment. In June 1993, Korea announced that it would phase out restrictions on foreign investment in 132 of 224 restricted areas by 1997. After 1997, Korea will retain restrictions on foreign investment in 92 sectors. The remaining justifications for limiting FDI include protection of national security, public order and morals, international peace and security, and national health and the environment. Previous restrictions on foreign investment in Korea excluded foreign investment that the Government of Korea judged could cause monopolistic or predatory practices or violate the Monopoly Regulation and Fair Trade Act.

Korea is trying to reduce restrictions on FDI for several reasons. First, the Government is trying to promote foreign investment in Korea. In recent years, Korea has received a relatively low amount of FDI compared with other developing countries in the region. During 1988-92, Korea received $5.5 billion in FDI compared with $87.6 billion for China, $30.4 billion for Thailand, $24.7 billion for Malaysia, and $9.1 billion for Taiwan. The Government of Korea is concerned that, if recent FDI trends continue, Korea's international competitiveness vis-a-vis China, Taiwan, and Southeast Asia will suffer as the benefits of job creation and technology transfer fall to those areas.

Second, Korea is trying to improve its investment climate in preparation for membership in the OECD. The OECD, whose 24 member countries are the advanced economies of Europe, North America, and the Pacific, requires that its members abide by, among other things, the Code of Liberalization of Capital Movements. The code mandates that members minimize restrictions on capital movements as a way to advance economic growth and cooperation.

In 1989, the OECD began an informal dialogue with six nonmember economies in East Asia (Korea, Taiwan, Hong Kong, Singapore, Thailand, and Malaysia), the so-called "dynamic Asian economies." The purpose of the on-going dialogue is to develop a better understanding of economic relations between the two groupings and to promote a convergence of policy views on issues central to international cooperation, including trade and investment. Since 1989, Korea has participated in a variety of OECD bodies, becoming a full member in five and an observer in eight others. In December 1993, Korea asked to become an observer of the OECD Committee on International Investment and Multinational Enterprises (CIME). Korea reached observer status in the committee earlier this year. At its meeting in late April, the CIME will conduct a review of Korea's investment regime. The review will cover Korea's treatment of foreign direct investment in Korea and the Korean investment abroad. Korea plans to become a full member of the OECD by the end of 1996.

Finally, Korea is revising FDI rules in an effort to internationalize its economy. On July 2, 1993, President Kim Young-Sam started a 5-year program to liberalize and internationalize the Korean economy. By so doing, the Government intends to reduce its role in economic activity and increase individual autonomy in economic affairs. The plan, called the "New Economy," is designed to promote autonomy, consistency, and transparency in economic activity by implementing widespread institutional changes. The main reforms spelled out by the plan are liberalization of foreign direct investment, financial liberalization and internationalization, improvements in the Alien Land Acquisition Regime, strengthening protection of intellectual property rights, and administrative deregulation.

The European Union Anticipates Four New Members

Austria, Sweden, Finland, and Norway—all members of the European Free-Trade Association (EFTA)—recently concluded negotiations with the European Union (EU) to become its newest members. The target date for accession is January 1, 1995. First, however, membership must be ratified by the European Parliament and the parliaments of each of the EU member states and the applicant countries. Opinion polls in some of the applicant countries, particularly in Sweden and Norway, indicate that ratification remains uncertain.

The EU conducted membership negotiations with the four countries simultaneously during 1993-94; negotiations with Austria, Sweden, and Finland began on February 1, and negotiations with Norway started April 5 (see *IER*, May 1993 and *IER*, August 1993). Membership requires that each applicant accept in full the "acquis communautaire," the body of primary and

secondary legislation making up the EU legislative and policy framework.

Membership in the new European Economic Area (EEA) agreement acted as a major stepping stone in meeting the accession requirements. The EEA agreement between the EU and these four EFTA nations, as well as Iceland (which did not apply for EU membership), entered into effect on January 1, 1994. It created a free trade area and required the EFTA members to apply the four EU single-market freedoms (that is, the free movement of goods, services, people, and capital) as well as certain horizontal policies, including state aids and competition, social and consumer policy, public procurement, the environment, research and development, and education. The EEA agreement does not apply to the EU's common policies on agriculture and fisheries, taxation, structural funds, or political and economic union. These policies had to be addressed during the negotiations for full EU membership.

The political neutrality of Austria, Sweden, and Finland had been viewed as a major stumbling block to accession, but these countries agreed to pursue the EU's common foreign and security policy as outlined in the Maastricht Treaty. The most difficult issues in the accession negotiations addressed agriculture, regional policy (aid to poorer regions), state monopolies, and the environment. Probably the biggest hurdles for the applicants taken as a whole were agriculture and regional policy. Farmers in each of the countries are few in number, work in harsh environments (arctic and alpine), and are highly subsidized. Indeed, farm prices in Norway and Finland are about twice as high as in the EU. The EU wanted applicants to align their agricultural prices with those in the EU immediately upon accession and to compensate their farmers for lost income with national funds. The final package called for direct price alignment and some compensation from EU programs. In the area of regional policy, a new category of region was created so that regions in the Scandinavian countries would qualify for special subsidies.

As negotiations entered the final stretch in 1994, success generally focused on the resolution of one final issue for each applicant country. Sweden was the first of the four countries to announce a successful conclusion to the negotiations. On March 1, a compromise agreement was reached on Sweden's contribution to the EU budget. In compensation for Sweden aligning its farm prices with those of the EU prior to accession, Sweden will not be required to pay its full contribution until its fifth year after joining. Later, on the same day, Finland completed negotiations after accepting the EU's compromise on agriculture.

The resolution of the alpine transit issue on March 1 also brought negotiations with Austria to a close. The EU sought to lift Austrian restrictions on truck traffic through its alpine regions, which were to remain in effect through 2004. Under the compromise agreement, the EU will permit enforcement of the restrictions until 2001, or until 2004 if the EU Council finds, according to studies, that air pollution levels continue to justify the restrictions.

Norway did not complete negotiations with the EU until March 16 because of the divisive issue of fishing rights. Both the access to Norwegian fishing waters by other EU member states and the access of Norwegian fish to the EU market had been issues, but were resolved in a complex compromise.

After the successful conclusion of negotiations with the four EFTA countries, one major obstacle remained before the ratification process could proceed—that of voting rights in the EU Council. The Council approves most EU legislation by "qualified majority vote," equivalent to 71 percent of Council votes. Each member state is assigned a specific number of votes in the Council, based on its population. With enlargement, the total number of votes will rise from 76 to 90. The number of votes required to block a decision (the "blocking minority") would also need to rise from 23 to 27 votes in order to continue the 71-percent approval formula that has held through all previous enlargements. Both the United Kingdom and Spain objected to raising the number of votes constituting the blocking minority, since they did not want to diminish their ability to block proposals. However, on March 29, a compromise was reached that would raise the blocking minority from 23 to 27 votes but would direct further efforts to compromise in cases where the number of votes falls between 23 and 27.

With the accession negotiations now complete, attention has been focused on the ratification process. The European Parliament is expected to ratify the accession agreements before it adjourns in May. Ratification by the applicant countries, which can only begin after ratification by the European Parliament, is less certain, however. Each is scheduling a popular referendum. Although polls indicate that a small majority of people favor EU membership in Austria and Finland, the majority of people in both Sweden and Norway currently oppose EU membership. Austria will be first and has scheduled its referendum on June 12. Referendums have been tentatively scheduled by Finland in early October, Sweden on November 13, and Norway on November 28. Norway hopes that, by holding its referendum last, the affirmative votes in the other applicant countries will prompt a positive response from Norwegians.

In the meantime, EU negotiators may not get much of a rest. Hungary submitted an application to join the EU on April 1. On April 8, Poland followed suit.

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STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, Jan. 1991-Feb. 1994.

(Percentage change from previous period, seasonally adjusted at annual rate)

				1993									1994	
Country	1991	1992	1993	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	-1.8	2.3	4.8	5.5	2.3	2.4	8.4	2.4	2.4	7.2	9.6	8.4	6.0	4.8
Japan	2.2	-7.6	(1)	(1)	(1)	(1)	(1)	-2.2	(1)	(1)	(1)	(1)	(1)	(1)
Canada	-1.0	0.5	(1)	(1)	(1)	(1)	(1)	-2.2	(1)	(1)	(1)	(1)	(1)	(1)
Germany	3.2	-1.4	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
United Kingdom	-3.0	-0.3	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
France	0.6	-1.3	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Italy	-1.8	-0.6	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Nov. 20, 1992; *Federal Reserve Statistical Release*; Mar. 15, 1994; and *International Financial Statistics*, International Monetary Fund, Jan. 1994.

Consumer prices, by selected countries and by specified periods, Jan. 1991-Feb. 1994

(Percentage change from same period of previous year)

				1993										1994	
Country	1991	1992	1993	I	II	III	IV	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	4.2	3.0	3.0	3.2	3.1	2.7	2.7	2.8	2.8	2.7	2.8	2.7	2.7	2.5	2.5
Japan	3.3	1.6	1.3	1.3	0.9	1.8	1.1	1.9	1.9	1.5	1.3	0.9	1.0	1.2	(1)
Canada	5.6	1.5	1.8	2.1	1.7	1.7	1.8	1.6	1.7	1.9	1.9	1.9	1.7	1.3	0.2
Germany	3.5	4.0	4.2	4.3	4.2	4.2	3.7	4.3	4.2	4.0	3.9	3.6	3.7	3.5	3.3
United Kingdom	5.9	3.7	1.6	1.8	1.3	1.6	1.6	1.4	1.7	1.8	1.4	1.4	1.9	2.5	2.4
France	3.2	2.4	2.0	2.1	2.0	2.2	2.1	2.1	2.2	2.3	2.2	2.2	2.1	(1)	(1)
Italy	6.4	5.1	4.4	4.5	4.5	4.5	4.4	4.5	4.5	4.2	4.5	4.4	4.3	4.4	4.4

[1] Not available.

Source: *Consumer Price Indexes, Nine Countries*, U.S. Department of Labor, Apr. 1994.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, Jan. 1991-Feb. 1994

				1993								1994	
Country	1991	1992	1993	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	6.7	7.4	6.8	7.0	7.0	6.7	6.5	6.7	6.8	6.5	6.4	6.7	6.5
Japan	2.1	2.2	2.5	2.3	2.4	2.6	2.8	2.6	(2)	2.8	2.9	2.8	(2)
Canada	10.3	11.3	11.2	11.0	11.4	11.4	11.1	11.2	11.1	11.0	11.2	11.4	11.1
Germany[3]	4.4	4.7	5.9	5.4	5.8	6.1	6.4	6.2	6.4	6.5	6.5	6.6	(2)
United Kingdom	8.9	10.0	10.4	10.6	10.4	10.5	10.1	10.3	10.1	10.1	10.0	10.0	(2)
France	9.8	10.2	11.3	10.6	11.0	11.3	11.7	11.4	(2)	11.7	11.7	(2)	(2)
Italy[4]	6.9	7.3	9.4	9.4	10.8	10.6	(2)	(5)	(5)	(5)	(5)	(5)	(5)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.
[2] Not available.
[3] Formerly West Germany.
[4] Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11-12 percent in 1989-1990.
[5] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, Apr. 1994.

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Money-market interest rates,[1] by selected countries and by specified periods, Jan. 1991-Mar. 1994
(Percentage, annual rates)

Country	1991	1992	1993	1993								1994			
				I	II	III	IV	Sept.	Oct.	Nov.	Dec.	I	Jan.	Feb.	Mar.
United States	5.9	3.7	3.2	3.2	3.1	3.1	3.3	3.2	3.2	3.4	3.4	3.4	3.1	3.6	3.7
Japan	7.3	4.4	2.9	3.4	3.2	2.9	2.2	2.6	2.4	2.3	2.0	(2)	2.1	2.2	(2)
Canada	9.0	6.7	5.1	6.3	5.1	4.6	4.3	4.9	4.7	4.3	4.0	(2)	3.8	3.8	(2)
Germany	9.1	9.4	7.1	9.2	7.5	6.6	6.2	6.5	6.5	6.2	5.9	(2)	5.7	5.7	(2)
United Kingdom	11.5	9.5	5.8	6.3	5.8	5.8	5.4	5.9	5.7	5.5	5.2	(2)	5.3	5.1	(2)
France	9.5	10.1	8.3	11.4	7.7	7.4	6.5	7.1	6.8	6.5	6.3	(2)	6.1	6.1	(2)
Italy	12.0	13.9	10.0	11.7	10.7	9.2	8.7	9.0	8.7	8.9	8.5	(2)	8.3	8.4	(2)

[1] 90-day certificate of deposit.
[2] Not available.

Source: *Federal Reserve Statistical Release*, Apr. 4, 1994 *Federal Reserve Bulletin*, Apr. 1994.

Effective exchange rates of the U.S. dollar, by specified periods, Jan. 1991-Mar. 1994
(Percentage change from previous period)

Item	1991	1992	1993	1993					1994			
				II	III	IV	Nov.	Dec.	I	Jan.	Feb.	Mar.
Unadjusted:												
Index[1]	98.5	97.0	100.1	98.1	99.6	101.2	101.3	102.1	101.6	102.5	101.5	100.9
Percentage change	-1.5	-1.5	3.1	-3.2	1.4	1.6	1.2	.8	.4	.3	-.9	-.5
Adjusted: Index[1]	101.1	100.9	104.2	103.0	103.7	104.1	103.9	104.2	104.7	105.8	104.6	103.9
Percentage change	1.0	-.1	3.3	-2.5	.7	.4	.8	.3	.6	1.5	-1.1	-.6

[1] 1990 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 18 other major nations.The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, Apr. 1994.

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Trade balances, by selected countries and by specified periods, Jan. 1991-Feb. 1994
(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

				1993						1994	
Country	1991	1992	1993	I	II	III	IV	Nov.	Dec.	Jan.	Feb.
United States[1]	-65.4	-84.5	-115.7	-103.1	-122.5	-125.4	-111.7	-116.1	-88.4	-136.1	-166.4
Japan[3]	103.1	132.4	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Canada	4.9	8.9	(2)	9.8	12.5	(2)	(2)	(2)	(2)	(2)	(2)
Germany[3]	13.5	32.0	(2)	35.2	(2)	(2)	(2)	(2)	(2)	(2)	(2)
United Kingdom[3]	-17.9	-24.5	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
France[3]	-5.4	1.7	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Italy[3]	-12.8	2.1	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)

[1] Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.
[2] Not available.
[3] Converted from ECU to dollars.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Nov. 20, 1992; *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, Apr. 19, 1994; *Canadian Economic Observer*, Dec. 1993 and *Eurostatistics Short-term Trends*, Oct. 1993.

U.S. trade balance,[1] by major commodity categories and by specified periods, Jan. 1991-Feb. 1994
(In billions of dollars)

				1992				1993		1994	
Country	1991	1992	1993	I	II	III	IV	Nov.	Dec.	Jan.	Feb.
Commodity categories:											
Agriculture	16.2	18.6	17.8	4.9	3.9	3.4	5.6	1.8	2.0	1.6	1.4
Petroleum and selected product—(unadjusted)	-42.3	-43.9	-45.7	-11.0	-12.7	-11.3	-10.7	-3.7	-2.9	-2.9	-3.2
Manufactured goods	-67.2	-86.7	-115.3	-21.0	-25.3	-36.2	-32.8	-12.0	-8.6	-9.3	-10.4
Selected countries:											
Western Europe	16.1	6.2	-1.4	3.5	-.9	-2.8	-1.2	-1.1	.1	.1	-.5
Canada[2]	-6.0	-7.9	-10.2	-2.5	-2.8	-2.1	-2.8	-1.0	-.8	-1.1	-1.0
Japan	-43.4	-49.4	-59.9	-13.2	-14.4	-15.2	-17.1	-5.7	-5.3	-4.6	-4.6
OPEC (unadjusted)	-13.8	-11.2	-11.6	-3.0	-3.4	-3.6	-1.6	-.7	-.2	-.2	-.7
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$17.42	$16.80	$15.13	$16.24	$16.49	$14.63	$13.52	$13.69	$12.26	$11.61	$12.03

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.
[2] Beginning with 1989, figures include previously undocumented exports to Canada.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, Apr. 19, 1994.

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